

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MACKINAC COUNTY ROAD COMMISSION	County MACKINAC
Audit Date 12/31/05	Opinion Date 03/21/06	Date Accountant Report Submitted to State: 06/02/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

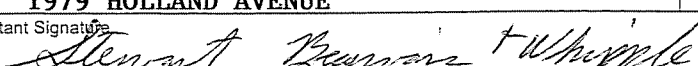
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) STEWART, BEAUVAIS & WHIPPLE PC			
Street Address 1979 HOLLAND AVENUE	City PORT HURON	State MI	ZIP 48079
Accountant Signature 			Date 06/02/06

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

YEAR ENDED DECEMBER 31, 2005

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Mackinac County
St. Ignace, Michigan

We have audited the accompanying basic financial statements of the Road commission of Mackinac County, Michigan, a component unit of Mackinac County, Michigan as of December 31, 2005 and for the year then ended. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Mackinac County, Michigan, as of December 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 21, 2006, on our consideration of the Road Commission of Mackinac County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplementary financial data in the Table of Contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of the Road Commission of Mackinac County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

March 21, 2006

MACKINAC COUNTY ROAD COMMISSION

A Component Unit of Mackinac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Mackinac County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Mackinac County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Governmental Financial Statements

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare to the information presented for governmental funds with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Mackinac County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-27 of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$27,371,792 at the end of the year.

The net assets are separated into three major components: invested in capital assets net of related debt, which amounted to \$24,593,954 or 90% of net assets, restricted net assets of \$857,645 or 3% of net assets, and finally, unrestricted net assets of \$1,929,343 or 7%. The invested in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure) less any related debt not funded by Townships. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's on-going obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets net of related debt, restricted and unrestricted net assets).

Because this is the second year of implementation of Governmental Accounting Standards Board No. 34, which requires this new reporting model, the following table presents current year data, as well as the prior year data for comparative analysis.

Condensed Statement of Net Assets	<u>2005</u>	<u>2004</u>
Assets		
Current and other unrestricted assets	\$ 3,403,318	3,970,778
Capital Assets	<u>26,703,856</u>	<u>25,140,460</u>
Total Assets	<u>30,107,174</u>	<u>29,111,238</u>
Liabilities		
Long-term liabilities outstanding	2,206,410	2,549,648
Other liabilities	<u>519,822</u>	<u>531,122</u>
Total Liabilities	<u>2,726,232</u>	<u>3,080,770</u>
Net Assets		
Invested in capital assets	24,593,954	23,691,034
Restricted	857,645	860,715
Unrestricted	<u>1,929,343</u>	<u>2,478,719</u>
Total Net Assets	<u>\$ 27,380,942</u>	<u>\$ 26,060,468</u>
Condensed Statement of Activities		
Revenues		
Intergovernmental -		
Federal Sources	\$ 913,432	\$ 2,031,949
State Sources	2,730,591	2,922,405
Other Sources	927,308	892,522
Charges for Services	294,945	265,213
Other	<u>223,238</u>	<u>229,842</u>
	<u>5,089,514</u>	<u>6,341,931</u>
Expenses		
Maintenance	2,335,475	2,132,191
Administration	385,817	340,500
Equipment - net	(564,947)	(595,697)
Depreciation	1,439,194	1,371,572
Interest and Other	<u>143,501</u>	<u>144,925</u>
	<u>3,739,040</u>	<u>3,393,491</u>
Change in Net Assets	<u>\$ 1,350,474</u>	<u>\$ 2,948,440</u>

Financial Analysis of Fund Statements

As noted earlier, the focus of the fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$2,793,826, which was the result of \$233,972 in revenues under expenditures for 2005. \$857,645 of the fund balance has been reserved for expenditures related to primary and local roads and forest funds as required by the Michigan Department of Transportation. The balance of \$1,752,547 has been designated by the Board of County Road Commissioners for specific purposes. See Note 17 to the financial statements for further detail. The remaining balance is unreserved and undesignated.

BUDGETARY HIGHLIGHTS

The final amended budget had a moderate change from the original budget. Actual revenues were \$40,172 or .7% less than anticipated. Expenditures were \$274,633 or 4.5% less than anticipated. Neither the difference in total revenues or expenditures was attributable to a specific function but was basically uniform throughout.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$26,703,856 in capital assets at the end of the year. The reason for the increase from the previous year was the capitalization of the preservation-structural improvements to roads and bridges funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Land and Land Improvements	\$ 14,813,222	\$ 13,938,121
Depletable Assets	10,084	10,084
Buildings and Improvements	1,458,232	1,494,710
Equipment - Road	1,072,426	1,290,927
Equipment - Other	26,708	35,390
Infrastructure	<u>9,323,184</u>	<u>8,371,228</u>
Total Capital Assets	<u>\$ 26,703,856</u>	<u>\$ 25,140,460</u>

Long-Term Liabilities - At the end of the current year, the Road Commission had total MTF note debt and MTHF Bonds outstanding of \$2,105,275. The debt is backed by the full faith and credit of Mackinac County. Additional information on the Road Commission's long-term liabilities may be found in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Road Commission's major revenue streams are declining, while others are somewhat stable. The anticipated decline in MTF revenue again in 2006 is due to more efficient and alternative fueled vehicles, modification trailer licensing changes, and lower usage due to high fuel costs. Long-term state fiscal crises are also affecting the local abilities to provide increased levels of maintenance, and are also affecting cost sharing programs currently in effect with township transportation partners.

Our 2006 budget is programmed for revenues that are decreased in most areas. Expenditures will exceed revenues during the year with a planned reduction of available operating funds. It is anticipated our fund equity during 2006 will reduce by \$93,727 due to replacement of much needed equipment to operate more efficiently.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designated to provide a general overview of the Mackinac County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Mackinac County Road Commission, 706 North State Street, St. Ignace, Michigan, 47981.

BASIC FINANCIAL STATEMENTS

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,588,641	\$ -	\$ 1,588,641
Due from other governmental units -			
State	634,088	-	634,088
Local	306,592	-	306,592
Accounts receivable	49,754	-	49,754
Prepaid expenditures/expenses	-	65,370	65,370
Inventory	758,873	-	758,873
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	14,813,222	14,813,222
Assets being depreciated	-	11,890,634	11,890,634
Total Assets	<u>\$ 3,337,948</u>	<u>\$ 26,769,226</u>	<u>\$ 30,107,174</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 291,078	\$ -	\$ 291,078
Accrued liabilities	50,726	-	50,726
Accrued interest payable	-	15,486	15,486
Due to other governmental units	-	-	-
Advances and deposits	162,532	-	162,532
Deferred revenue	39,786	(39,786)	-
Noncurrent Liabilities:			
Due within one year	-	447,663	447,663
Due in more than one year	-	1,758,747	1,758,747
Total Liabilities	<u>544,122</u>	<u>2,182,110</u>	<u>2,726,232</u>
Fund Balance:			
Fund Balance -			
Reserved -			
Primary/Local Roads	857,645	(857,645)	-
Unreserved -			
Designated	1,752,547	(1,752,547)	-
Undesignated	183,634	(183,634)	-
Total Fund Balance	<u>2,793,826</u>	<u>(2,793,826)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 3,337,948</u>		
Net Assets:			
Invested in capital assets net of related debt		24,593,953	24,593,954
Restricted -			
Primary/Local Roads/Forest Funds		857,645	857,645
Unrestricted		1,929,344	1,929,343
Total Net Assets		<u>\$ 27,380,942</u>	<u>\$ 27,380,942</u>

See Notes to Financial Statements

MACKINAC ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 30,874		\$ 30,874
Intergovernmental -			
Federal sources	913,432		913,432
State sources	3,043,750	(313,159)	2,730,591
Local sources	927,308		927,308
Charges for services	294,945		294,945
Interest and rents	50,252		50,252
Other	37,853		37,853
Total Revenues	<u>5,298,414</u>	<u>(313,159)</u>	<u>4,985,255</u>
Other Financing Sources:			
County appropriation	104,259	-	104,259
Installment note proceeds	218,518	(218,518)	-
	<u>322,777</u>	<u>(218,518)</u>	<u>104,259</u>
Total Revenues and Other Sources	<u>5,621,191</u>	<u>(531,677)</u>	<u>5,089,514</u>
Expenditures/Expenses:			
Current -			
Primary preservation - structural improvements	1,781,851	(1,781,851)	-
Local preservation - structural improvements	722,504	(722,504)	-
Primary maintenance	1,220,581	(8,616)	1,211,965
Local maintenance	828,944	(4,846)	824,098
State maintenance	299,412	-	299,412
Administrative	396,742	(10,925)	385,817
Other	20,142	-	20,142
Equipment operation	1,636,968	(572,861)	1,064,107
Less equipment rental			
charged to other activities	(1,629,054)	-	(1,629,054)
Depreciation	-	1,439,194	1,439,194
Capital Outlay	498,235	(498,235)	-
Less: depreciation credit			
and retirements	(601,616)	601,616	-
Debt Service -			
Principal	567,191	(567,191)	-
Interest	113,263	10,096	123,359
Total Expenditures/Expenses	<u>5,855,163</u>	<u>(2,116,123)</u>	<u>3,739,040</u>
Excess of revenues over (under) expenditures/expenses	(233,972)	1,584,446	1,350,474
Fund Balance/Net Assets at January 1, 2005	<u>3,027,798</u>	<u>23,002,670</u>	<u>26,030,468</u>
Fund Balance/Net Assets at December 31, 2005	<u><u>\$ 2,793,826</u></u>	<u><u>\$ 24,587,116</u></u>	<u><u>\$ 27,380,942</u></u>

See Notes to Financial Statements

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Permits	\$ 7,000	\$ 28,000	\$ 30,874	\$ 2,874
Intergovernmental -				
Federal sources	1,620,967	1,470,060	913,432	(556,628)
State sources	2,799,825	2,512,101	3,043,750	531,649
Local sources	903,421	975,364	927,308	(48,056)
Charges for services	258,110	270,165	294,945	24,780
Interest and rents	60,000	46,500	50,252	3,752
Other	-	35,655	37,853	2,198
Total Revenues	<u>5,649,323</u>	<u>5,337,845</u>	<u>5,298,414</u>	<u>(39,431)</u>
Other Financing Sources:				
County appropriation	118,000	105,000	104,259	(741)
Installment note proceeds	-	218,518	218,518	-
	<u>118,000</u>	<u>323,518</u>	<u>322,777</u>	<u>(741)</u>
Total Revenues and Other Sources	<u>5,767,323</u>	<u>5,661,363</u>	<u>5,621,191</u>	<u>(40,172)</u>
Expenditures:				
Current -				
Primary preservation - structural improvements	2,414,993	1,845,978	1,781,851	64,127
Local preservation - structural improvements	520,275	755,325	722,504	32,821
Primary maintenance	1,253,261	1,252,061	1,220,581	31,480
Local maintenance	787,021	846,271	828,944	17,327
State maintenance	258,110	299,412	299,412	-
Administrative-net	404,511	401,211	396,742	4,469
Equipment - net	38,694	92,744	7,914	84,830
Other	8,258	21,258	20,142	1,116
Capital Outlay - net	(5,000)	(65,000)	(103,381)	38,381
Debt Service	640,538	680,596	680,454	142
Total Expenditures	<u>6,320,661</u>	<u>6,129,856</u>	<u>5,855,163</u>	<u>274,693</u>
Excess of revenues and other sources over (under) expenditures	(553,338)	(468,493)	(233,972)	234,521
Fund Balance at January 1, 2005.	<u>3,027,798</u>	<u>3,027,798</u>	<u>3,027,798</u>	<u>-</u>
Fund Balance at December 31, 2005	<u>\$ 2,474,460</u>	<u>\$ 2,559,305</u>	<u>\$ 2,793,826</u>	<u>\$ 234,521</u>

See Notes to Financial Statements

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Mackinac County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

A. Description of Road Commission Operations –

The Mackinac County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Mackinac, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission workforce. The Road Fund is the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to eleven (11) Townships in Mackinac County and maintains 649 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e. statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Prepaid Items - Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5-8 years
Roads	8-30 years
Bridges	25-50 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Advances From The State Of Michigan - The State of Michigan advances funds on a State maintenance agreement it has with the Mackinac County Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Accrued Vacation And Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statement of net assets).

Deferred Revenues - In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Long-Term Obligations - In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

Equipment Rental - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 7).

Fund Balance – governmental fund	\$ 2,793,826
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	37,819,152
Deduct – accumulated depreciation	(11,115,296)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	(2,206,410)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	(15,486)
Prepaid expenses not reported in the governmental fund statements	65,370
Revenues that have been deferred to the government fund statement because they are not “available”	<u>39,786</u>
Net Assets	<u>\$ 27,380,942</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 9).

Excess of revenues over expenditures - governmental fund statement	\$(233,972)
The governmental fund statements report capital outlay as Expenditures; however, in the government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	3,002,590
Deduct – depreciation	(1,439,194)
Revenues are deferred in the governmental fund statements because they do not provide current financial resources; however, are reported in the government-wide Statement of Activities	(313,159)
Loan proceeds reported as another financing source in the Governmental fund statements, but not in the government-wide Statements where it is reported as long-term liability	(218,518)
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	(10,096)

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont’d):

Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)	567,191
Prepaid expense adjustment not reported in the governmental fund statements	1,067
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	(<u>5,435</u>)
Change in Net Assets	<u>\$ 1,350,474</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Road Commission Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution.

The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners. The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18(1) as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2005, the Road Commission had no expenditures over budget as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS:

As of December 31, 2005, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 150
Deposits with Financial Institutions	
Imprest Checking	4,000
Deposits with County Treasurer	
Savings	727,985
Certificates of deposit	<u>856,506</u>
	<u>\$ 1,588,641</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Mackinac County Treasurer's Office, and in order to make disbursements, the Mackinac County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll investment trust sweep account with vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

Information on the Mackinac County investment policy and the various investment risk categories may be obtained from the Mackinac County Financial Report for the year ended December 31, 2005.

Deposits –

As a component unit of Mackinac County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Mackinac County at banking institutions insured by federal depository insurance. However, the Road Commission by State statute has fund allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits with financial institutions consist of demand accounts. At December 31, 2005, the carrying amount of the Road Commission's deposits with financial institutions is \$4,000, and the bank balance is \$65,321 of which all is FDIC insured.

The deposit maintained by the County Treasurer bank balance is FDIC insured for \$100,000 with the balance exposed to credit risk since it is uninsured and uncollateralized.

NOTE 5 – INVENTORIES:

The Inventory balance of \$758,873 at December 31, 2005 consisted of \$680,197 of road materials and \$78,676 of equipment parts and materials.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 6 – FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2005, the Road Commission of Mackinac County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$913,432 represents the Department of Transportation Federal Highway grant money of \$660,624 expended on public road improvement projects which were administered by the Michigan Department of Transportation; however, required to be reported by the Road Commission and \$252,808 of Federal Forest Highway money.

NOTE 7 – CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2005	Additions	Deletions	Removals	Balance December 31, 2005
Capital Assets, not being depreciated –					
Land	\$ 103,297	\$ 179,195	\$ -	\$ -	\$ 282,472
Land Improvements	<u>13,834,824</u>	<u>695,926</u>	<u>-</u>	<u>-</u>	<u>14,530,750</u>
Total Capital Assets, not being depreciated	<u>13,938,121</u>	<u>875,101</u>	<u>-</u>	<u>-</u>	<u>14,813,222</u>
Capital Assets, being depreciated –					
Buildings and Improvements	1,640,367	-	-	-	1,640,367
Road Equipment	4,873,419	317,882	54,147	-	5,137,154
Shop Equipment	20,706	-	-	-	20,706
Office Equipment	95,084	1,178	-	-	96,262
Engineering Equipment	19,947	-	-	-	19,947
Infrastructure -					
Roads	11,196,164	1,808,429	-	7,393	12,997,200
Bridges	3,066,716	-	-	-	3,066,716
Depletable assets	<u>27,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,578</u>
	<u>20,939,981</u>	<u>2,127,489</u>	<u>54,147</u>	<u>7,393</u>	<u>23,005,930</u>

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7 – CAPITAL ASSETS – (cont'd):

	Balance January 1, 2005	Additions	Deletions	Removals	Balance December 31, 2005
Less – accumulated depreciation for –					
Buildings	\$ 145,657	\$ 36,478	\$ -	\$ -	\$ 182,135
Road Equipment	3,582,492	536,383	54,147	-	4,064,728
Shop Equipment	16,770	989	-	-	17,759
Office Equipment	75,100	6,432	-	-	81,532
Engineering Equipment	8,477	2,439	-	-	10,916
Infrastructure –					
Roads	4,417,268	807,217	-	7,393	5,217,092
Bridges	1,474,384	49,256	-	-	1,523,640
Depletable Assets	<u>17,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,494</u>
	<u>9,737,642</u>	<u>1,439,194</u>	<u>54,147</u>	<u>7,393</u>	<u>11,115,296</u>
 Total Capital Assets, being depreciated, net	 <u>11,202,339</u>	 <u>688,295</u>	 <u>-</u>	 <u>-</u>	 <u>11,890,634</u>
 Governmental activity capital assets net	 <u>\$ 25,140,460</u>	 <u>\$ 1,563,396</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 26,703,856</u>

Total depreciation for the year ended December 31, 2005 was \$1,439,194.

NOTE 8 – LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2005:

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005	Due Within One Year
Installment Notes -					
Equipment 2000	\$ 272,141	\$ -	\$ 272,141	\$ -	\$ -
Equipment 2001	50,615	-	24,901	25,714	25,714
Equipment 2002	126,713	-	65,652	61,061	52,438
Equipment 2005	<u>-</u>	<u>38,518</u>	<u>29,018</u>	<u>9,500</u>	<u>9,500</u>
	<u>449,469</u>	<u>38,518</u>	<u>391,712</u>	<u>96,275</u>	<u>87,652</u>
 Bonds and Notes Payable -					
Bank Note	194,000	180,000	95,000	279,000	279,000
MTF Bonds 2001	900,000	-	35,000	865,000	35,000
MTF Bonds 2001A	<u>900,000</u>	<u>-</u>	<u>35,000</u>	<u>865,000</u>	<u>35,000</u>
	<u>1,994,000</u>	<u>180,000</u>	<u>165,000</u>	<u>2,009,000</u>	<u>349,000</u>
 Other Liabilities -					
Accrued sick vacation	63,622	5,435	-	69,057	-
MDOT settlement	36,600	-	9,150	27,450	9,150
Capital lease 2004	<u>5,957</u>	<u>-</u>	<u>1,330</u>	<u>4,627</u>	<u>1,861</u>
	<u>106,179</u>	<u>5,435</u>	<u>10,480</u>	<u>101,134</u>	<u>11,011</u>
 Total	 <u>\$ 2,549,648</u>	 <u>\$ 223,953</u>	 <u>\$ 567,192</u>	 <u>\$ 2,206,409</u>	 <u>\$ 447,663</u>

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 8 – LONG-TERM LIABILITIES – (cont'd):

Significant details regarding outstanding long-term liabilities are presented below:

Installment Notes -

In September 2000, the Road Commission borrowed \$1,100,000 for the purchase of several pieces of equipment to replace equipment destroyed in the garage fire. The note was payable in ten semi-annual installments commencing March 22, 2001 through September 22, 2005.

In November 2000, the Road Commission borrowed \$138,000 for the purchase of a motor grader. The note was payable monthly in the amount of \$2,300 plus interest of 5.480 percent annually until December 20, 2005.

In December 2001, the Road Commission borrowed \$119,342 for the purchase of an excavator. The note is payable monthly in the amount of \$2,217 including interest of 4.3516 percent annually until December 28, 2006. The principal balance at December 31, 2005 is \$25,714.

In November 2002, the Road Commission borrowed \$55,306 for the purchase of a roller. The note was payable in monthly installments until November of 2005 in the amount of \$1,536.

In February 2002, the Road Commission borrowed \$242,966 for the purchase of two loaders. The note is payable monthly in the amount of \$4,503 including interest of 4.246 percent annually until February of 2007. The principal balance at December 31, 2005 is \$61,061.

In May 2005, the Road Commission borrowed \$28,500 for the purchase of a V-Bottom Trailer. The note is payable monthly in the amount of \$2,500, commencing June 5, 2005 through March 5, 2006, with the balance of \$2,000 due April 5, 2006. The balance at December 31, 2005 is \$9,500.

The annual requirements to amortize the installment rate liability outstanding at December 31, 2005 are as follows:

Year Ending December 31,	Installment Notes 2001		Installment Notes 2002		Installment Note 2005
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2006	\$ 25,714	\$ 869	\$ 52,438	\$ 1,594	\$ 9,500
2007	<u>-</u>	<u>-</u>	<u>8,623</u>	<u>48</u>	<u>-</u>
	<u>\$ 25,714</u>	<u>\$ 869</u>	<u>\$ 61,061</u>	<u>\$ 1,642</u>	<u>\$ 9,500</u>

MTF Note - Series 2003 -

The County of Mackinac, Michigan issued a Michigan Transportation Fund Reserve Note for \$500,000, of which \$320,000 was drawn on June 5, 2003, and \$180,000 was drawn on August 3, 2005. The note was issued under and in full compliance with the constitution and statutes of the State of Michigan, including specifically Act 143, Public Acts of Michigan, 1943 as amended. The note is issued in anticipation of and is payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 143.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 8 – LONG-TERM LIABILITIES – (cont'd):

Principal on the note is due on October 1, 2006, with interest at a rate of 3.35 percent per annum. The principle balance at December 31, 2005 is \$279,000.

MTF Bonds –

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001, dated July 11, 2001 pursuant to the provision of Act 202, Public Acts of Michigan of 1943, as amended. The Bonds are issued in anticipation of and are payable from monies derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement and repair of various roads in Mackinac County and to purchase equipment, which is necessary and incidental thereto.

Principal on the bonds is due on July 1, 2006 through 2021 with interest due semi-annually on January 1 and July 1 at interest rates ranging from 4.1% to 5.55%.

The County of Mackinac, Michigan issued \$995,000 of Michigan Transportation Fund Bonds, Series 2001A, dated June 12, 2001 pursuant to the provision of Act 202 Public Acts of Michigan 1943, as amended. The bonds are issued in anticipation of and are payable from money derived from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto pursuant to Act 202. The proceeds from the bonds were for the construction, improvement, and repair of various roads in Mackinac County and to construct a garage, which is necessary and incidental thereto.

Principal on the bonds is due on June 1, 2006 through 2021 with interest due semi-annually on June 1 and December 1 at interest rates ranging from 4.1% to 5.25%.

As additional security for the payment of the principal of and interest on both Bond issues, in the event and to the extent that Michigan Transportation Fund money is not sufficient to pay such principal and interest, the County is obligated to advance from its general fund money sufficient to pay such principal and interest. The County does not have the power to levy taxes to pay principal of and interest on the bonds over and above its authorized tax rate established pursuant to law. To the extent such an advance is made from the County's general fund, the general fund shall be reimbursed from the first subsequent revenues received by the Road Commission from Michigan Transportation Fund money not pledged or required to be set aside and used for the payment of bonds or notes of other evidence of indebtedness.

The MTF Series 2001 in 2006 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after July 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any one or more interest payment dates on or after July 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 8 – LONG-TERM LIABILITIES – (cont'd):

The MTF Series 2001A in 2006 through 2011 shall not be subject to redemption prior to maturity. Bonds maturing on or after June 1, 2012 shall be subject to redemption prior to maturity at the option of the County, in such order as shall be determined by the County, on any note or more interest payment dates on or after June 1, 2011. Bonds of a denomination greater than \$50,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the Bonds maturing in any year are to be redeemed, the Bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

The annual requirements to amortize the bonds outstanding at December 31, 2005, including interest payments, are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>MTF Note</u>		<u>MTF Bonds</u> <u>Series 2001</u>		<u>MTF Bond</u> <u>Series 2001A</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 279,000	\$ 9,347	\$ 35,000	\$ 44,600	\$ 35,000	\$ 41,365
2007	-	-	40,000	43,060	40,000	39,828
2008	-	-	40,000	41,260	40,000	38,168
2009	-	-	40,000	39,420	40,000	36,456
2010	-	-	45,000	37,540	45,000	32,561
2011-2021	-	-	<u>665,000</u>	<u>235,571</u>	<u>665,000</u>	<u>209,390</u>
	<u>\$ 279,000</u>	<u>\$ 9,347</u>	<u>\$ 865,000</u>	<u>\$ 441,451</u>	<u>\$ 865,000</u>	<u>\$ 397,768</u>

Accrued Sick and Vacation -

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated vacation and sick leave under formulas and conditions specified in the contracts. Employees are compensated 100%, up to a maximum of 240 hours, of their vested vacation leave upon termination for any reason. Sick leave vests upon death or retirement limited to 50% of their total accumulated sick time, up to a maximum of 1200 hours. The dollar amount of these vested rights, which have been accrued on the financial statements in the Long-Term Debt Account Group, amounts to approximately \$69,057 for vacation at December 31, 2005.

MDOT Settlement -

The Michigan Department of Transportation audited the Road Commission's Trunkline Maintenance contracts for the periods October 1, 1998 through September 30, 2003. As a result of the audits, an agreement was made for \$36,600 to be repaid to MDOT over four years effective March 1, 2005 through March 1, 2008. The balance at December 31, 2005 is \$27,450.

Capital Lease -

The Road Commission is obligated for a capital lease agreement to finance the acquisition of a copy machine. The minimum annual payments for the capital lease are summarized in Note 9.

MACKINAC COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 9 – CAPITAL LEASE:

The Road Commission 2004 entered into lease purchase agreement to finance the acquisition of a copy machine with capitalizing cost totaling \$6,643. This lease agreement qualifies as a capital lease for accounting purposes (agreement provides for either title transfer or bargain purchase option at end of the lease terms) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception.

The following is a schedule of future minimum lease payments, together with the present value of the minimum lease payments as of December 31, 2005:

<u>Year Ending</u> <u>December 31,</u>	
2006	\$ 1,861
2007	1,861
2008	1,862
2009	<u>200</u>
	5,784
Amount representing interest	<u>(1,157)</u>
Present value of minimum lease payments	<u>\$ 4,627</u>

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Mackinac County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2005 was 16.79% for general employees, 43.16% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 10 – EMPLOYEE PENSION PLAN – (cont'd):

Annual Pension Costs -

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$210,492 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

Three-Year Trend Information

Fiscal Year Ending December 31,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2003	\$ 198,520	100%	-
2004	21,0492	100	-
2005	210,492	100	-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
2002	3,042,800	5,081,224	2,038,424	60	822,191	248
2003	3,210,430	5,293,620	2,083,190	61	833,963	249
2004	3,393,555	5,687,076	2,293,521	60	868,595	264

NOTE 11 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 8, the Mackinac County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least six years vesting with MERS for service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2005, these costs amounted to approximately \$44,971 with four eligible participants.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 12 – ADVANCES AND DEPOSITS:

Advances and Deposits of \$162 at December 31, 2004, represent money advanced by the State of Michigan, under the maintenance contract the Road Commission has with the State for working capital and equipment purchases, advances and deposits from Townships, contractors and individuals for various projects. The State advance is adjusted annually by the State, and must be repaid if the maintenance contract is cancelled. The following is a summary of the balance by source and use:

State -	
Trunkline maintenance	\$ 101,758
Equipment	<u>19,533</u>
	<u>121,291</u>
Local -	
Township advances	309
Contractors and individuals	<u>40,932</u>
	<u>41,241</u>
	<u>\$ 162,532</u>

NOTE 13 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Mackinac County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 14 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 14 - RISK MANAGEMENT – (cont'd):

The Mackinac County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance, but has opted to participate in a self-insurance program that bases premiums on the Road Commission experience and provides for stop loss coverage. Premiums are adjusted every three months.

NOTE 15 – EQUIPMENT OPERATIONS EXPENDITURE/EXPENSE BALANCE:

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions, charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The balance for the year ended December 31, 2005 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment -		
Direct	\$ 1,022,687	\$ 486,304
Indirect	355,860	319,382
Operating	<u>258,421</u>	<u>258,421</u>
	1,636,968	1,064,107
 Less - equipment rental	 (<u>1,629,054</u>)	 (<u>1,629,054</u>)
	 <u>\$ 7,914</u>	 <u>\$(564,947)</u>

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 16 – CAPITAL OUTLAY EXPENDITURE CREDIT BALANCE:

On the governmental fund financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The credit balance of \$103,381 is the result of the amount of depreciation and retirements exceeding capital outlay expenditures for the year ended December 31, 2005 as follows:

Capital Outlay -	
Land improvements, building and equipment	\$ 498,235
Less - depreciation/depletion	<u>(601,616)</u>
	<u><u>\$ (103,381)</u></u>

NOTE 17 – FUND BALANCE – DESIGNATED:

The Road Commission fund balance at December 31, 2005 had been designated as follows:

Sick and vacation pay out for employees retiring	\$ 92,580
Building fund	30,000
Equipment purchases	1,028,855
Emergency contingency	<u>601,112</u>
	<u><u>\$ 1,752,547</u></u>

NOTE 18 – FUND BALANCE – RESERVED/NET ASSETS – RESTRICTED:

The Road Commission has fund balance reserved/net assets restricted at December 31, 2005 as follows:

Primary Roads	\$ 594,138
Forest Funds	169,320
Local Roads	<u>94,187</u>
	<u><u>\$ 857,645</u></u>

SUPPLEMENTARY INFORMATION

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

DETAIL SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Revenues:		
Licenses and permits	\$ 30,874	\$ 31,196
Federal Sources -		
D Funds	260,693	139,783
STP funds	399,931	202,941
National Forest	252,808	1,689,225
	<u>913,432</u>	<u>2,031,949</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	1,494,988	1,573,780
Local roads	734,133	767,618
Snow removal	108,003	102,027
Economic Development Fund	696,626	480,152
	<u>3,043,750</u>	<u>2,933,577</u>
Local Sources -		
City and Village	5,113	-
Township contributions	922,195	892,522
	<u>927,308</u>	<u>892,522</u>
Charges for Services -		
Trunkline maintenance	255,335	258,668
Trunkline Non- maintenance	36,246	328
Salvage sales	3,364	6,217
	<u>294,945</u>	<u>265,213</u>
Interest and rents	<u>50,252</u>	<u>31,685</u>
Other -		
Sundry Refunds	2,197	7,536
Gain on disposal of equipment	20,000	18,000
Other	15,656	26,485
	<u>37,853</u>	<u>52,021</u>
Total Revenues	<u>5,298,414</u>	<u>6,238,163</u>
Other Financing Sources:		
County appropriations	104,259	114,940
Installment Purchases/Leases	218,518	6,643
Installment note proceeds	-	36,600
	<u>322,777</u>	<u>158,183</u>
Total Revenues and Other Sources	<u><u>\$ 5,621,191</u></u>	<u><u>\$ 6,396,346</u></u>

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Expenditures:		
Preservation - structural improvements		
Primary roads, structures and safety projects	\$ 1,781,851	\$ 3,172,497
Local roads and structures	<u>722,504</u>	<u>433,512</u>
	<u>2,504,355</u>	<u>3,606,009</u>
Maintenance -		
Primary roads and structures,		
winter and traffic control	1,220,581	1,206,445
Local roads and structures,		
winter and traffic control	<u>828,944</u>	<u>687,244</u>
	<u>2,049,525</u>	<u>1,893,689</u>
State Maintenance -		
Trunkline maintenance	249,058	230,835
Non-Maintenance	<u>50,354</u>	<u>328</u>
	<u>299,412</u>	<u>231,163</u>
Equipment -		
Direct	1,022,687	1,011,683
Indirect	355,860	339,728
Operating	258,421	201,931
Less - equipment rental	<u>(1,629,054)</u>	<u>(1,534,961)</u>
	<u>7,914</u>	<u>18,381</u>
Administrative -		
Administration	430,813	376,516
Less - overhead	<u>(34,071)</u>	<u>(25,087)</u>
	<u>396,742</u>	<u>351,429</u>
Other	<u>20,142</u>	<u>15,652</u>
Capital Outlay -		
Land improvements, building		
and equipment	498,235	332,263
Less - depreciation/depletion	<u>(601,616)</u>	<u>(623,312)</u>
	<u>(103,381)</u>	<u>(291,049)</u>
Debt Service -		
Principal retirement	567,191	535,052
Interest	<u>113,263</u>	<u>137,390</u>
	<u>680,454</u>	<u>672,442</u>
Total Expenditures	<u><u>\$ 5,855,163</u></u>	<u><u>\$ 6,497,716</u></u>

MACKINAC COUNTY ROAD COMMISSION
A Component Unit of Mackinac County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 30,874	\$ 30,874
Intergovernmental -				
Federal Sources	822,003	91,429	-	913,432
State Sources	2,270,676	773,074	-	3,043,750
Local Sources	204,637	722,671	-	927,308
Charges for services	291,581	-	3,364	294,945
Interest and rents	-	-	50,252	50,252
Other	-	-	37,853	37,853
	<u>3,588,897</u>	<u>1,587,174</u>	<u>122,343</u>	<u>5,298,414</u>
Other Financing Sources:				
County appropriation	-	104,259	-	104,259
Installment note proceeds	-	-	218,518	218,518
	<u>-</u>	<u>104,259</u>	<u>218,518</u>	<u>322,777</u>
Total Revenues and Other Sources	<u>3,588,897</u>	<u>1,691,433</u>	<u>340,861</u>	<u>5,621,191</u>
Expenditures:				
Preservation - Structural Improvements	1,781,851	722,504	-	2,504,355
Maintenance	1,220,581	828,944	-	2,049,525
State Non-Maintenance	299,412	-	-	299,412
Equipment - net	4,625	2,733	556	7,914
Administrative - net	261,577	135,165	-	396,742
Other	-	16,858	3,284	20,142
Capital outlay - net	-	-	(103,381)	(103,381)
Debt principal -				
Principal retirement	9,150	-	558,041	567,191
Interest	-	-	113,263	113,263
Total Expenditures	<u>3,577,196</u>	<u>1,706,204</u>	<u>571,763</u>	<u>5,855,163</u>
Excess of revenues and other sources over (under) expenditures	11,701	(14,771)	(230,902)	(233,972)
Fund balance at January 1, 2005	<u>751,757</u>	<u>108,958</u>	<u>2,167,083</u>	<u>3,027,798</u>
Fund balance at December 31, 2005	<u><u>763,458</u></u>	<u><u>94,187</u></u>	<u><u>1,936,181</u></u>	<u><u>2,793,826</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of County Road Commissioners
County of Mackinac
St. Ignace, Michigan

We have audited the financial statements of Mackinac County Road Commission as of and for the year ended December 31, 2005, and have issued our report thereon, dated March 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Mackinac County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mackinac County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management and Board of County Road Commissioners of Mackinac County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

March 21, 2006